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BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

DEPT. OF TRANSPORTATION
DOCKETS

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In the Matter of U.S.-Ecuador All-Cargo
Frequencies

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Docket OST-2002-12503 — 14

ANSWER OF EVERGREEN INTERNATIONAL AIRLINES, INC.
TO APPLICATIONS FOR EXEMPTIONS AND FREQUENCIES

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DATED: August 2, 2002

BEFORE THE
DEPARTMENT OF TRANSPORTATION
WASHINGTON, D.C.

In the Matter of U.S.-Ecuador All-Cargo Frequencies)	Docket OST-02-12503
)	August 2, 2002

ANSWER OF EVERGREEN INTERNATIONAL AIRLINES, INC.
TO APPLICATIONS FOR EXEMPTIONS AND FREQUENCIES

Pursuant to the Department's June 14, 2002 Notice inviting applications for 15 new, U.S.-Ecuador all-cargo frequencies, Evergreen International Airlines, Inc. ("Evergreen") and four other carriers--incumbent Arrow Air, Inc. and non-incumbents Atlas Air, Inc., Custom Air Transport, Inc., and Florida West International Airways, Inc.--filed applications requesting U.S.-Ecuador authority and an allocation of the new frequencies. Since the five applicants request a total of 21 frequencies, exceeding the number available, the Department must determine on a comparative basis how best to allocate the 15 frequencies available.

A comparative analysis clearly demonstrates that Evergreen should be awarded two weekly frequencies. Evergreen intends to use the appropriate aircraft to offer a reasonable level of service, adding a new, U.S.-flag competitor in the Miami-Ecuador market. It also is the only applicant that proposes to offer new, single-plane, freighter service in the important New York-Ecuador market. Thus, so long as Evergreen is authorized to operate two weekly roundtrips, it does not object to allocation of the

remaining frequencies to the other applicants as the Department sees fit. However, Evergreen does have the following comments on those applications for the Department to consider in its comparative analysis:

ARROW AIR

An award to Arrow of the frequencies it requests would make that incumbent the dominant U.S. airline in the U.S.-Ecuador freighter market, as measured by authorized, scheduled frequencies. Evergreen, though, is uncertain as to the scope of Arrow's current operations and the manner in which Arrow would use the additional frequencies requested. Arrow's Exhibit JW-B states that the carrier today operates seven flights per week, five scheduled and two charter, but its website, *www.arrowair.com*, shows 10 weekly scheduled flights between Miami and Ecuador, suggesting that Arrow may not need additional frequencies to conduct the level of operations it proposes. *See* Exhibit 1. Unfortunately, Arrow's proposed schedule in Exhibit JW-C does not help matters; it lists seven weekly flights--all scheduled--over the exact same routing and with the same departure/arrival times. If Arrow plans on operating daily scheduled service, it does not need five additional frequencies; it needs only two. On the other hand, if Exhibit JW-C shows only new services, Arrow would seem to need seven frequencies. In other words, there seems to be some confusion about Arrow's proposal.

Arrow's application also forces the Department and other applicants to speculate as to the source of the B-747-200F aircraft Arrow proposes to operate four times weekly in the Miami-Quito market. These aircraft are not presently on Arrow's operations

specifications^{1/}, and Evergreen believes they would be provided to Arrow through its alliance with Air Global International ("AGI"). Attached as Exhibit 2 to this Answer are several press releases and other documents that describe the affiliation of Arrow, AGI, and another applicant, Atlas Air, Inc. ("Atlas"). According to Arrow/AGI press releases, these partners intend to "merge" the B-747 fleet of AGI and the DC-8 and DC-10 fleet of Arrow so as to provide "the most comprehensive and effective product delivery in the Americas." AGI, in turn, indicates that it began operations in September 2001 "with a five-year contract to use Boeing 747 freight operator Atlas Air as its exclusive source of wide-body lift." The release states further that "Atlas currently operates 15 flights per week for Air Global from the Miami Airport to Brazil, Colombia, Chile, Ecuador, Paraguay and Mexico." If Atlas is AGI's exclusive source of wide-body aircraft, and Arrow plans to complement its narrow-body fleet with AGI's B-747s, it logically follows that Atlas will be flying for Arrow as it flies for AGI, and that Atlas would operate the four U.S.-Ecuador wide-body frequencies proposed by Arrow. Moreover, Arrow states that it is actively involved in discussions with Atlas about the prospect of joining the Atlas Air Partnership Program, a program in which AGI apparently is actively involved.

It certainly appears that there is a strong affiliation among Arrow, Atlas and AGI intended to enhance the position of all three entities in the U.S.-Ecuador and U.S.-South America markets. From a business standpoint, such an alliance may make good sense. However, Evergreen questions whether the public interest would be served if the

^{1/} See June 28, 2002 Application of Arrow Air and fleet information available from the FAA at <http://av-info.faa.gov/OpCert.asp>.

Department were to award five additional frequencies to Arrow and six to Atlas, thereby giving the alliance partners control of *more than half* of the available U.S. carrier frequencies, especially if *all* those frequencies would be for the exclusive use of AGI.^{2/}

ATLAS AIR

In addition to the public interest issues raised by the alliance between Atlas, Arrow and AGI described above, other factors dictate against awarding Atlas six frequencies in this proceeding. One thing that is interesting about Atlas' proposal is that it was filed by Atlas, not sister company Polar Air Cargo ("Polar"), which is touted by Atlas Air Worldwide Holdings ("AAWH") as that company's scheduled airline. Exhibit 3 to this Answer includes a sample of the AAWH statements that differentiate Atlas and Polar. In a November 2, 2001 statement announcing the completion of Polar's acquisition, AAWH stated that "Polar Air Cargo specializes in time-definite, cost-effective airport-to-airport scheduled airfreight service," while Atlas specializes in "ACMI contracts." In a more recent speech at AAWH's 2002 Annual Meeting, CEO Richard Shuyler described Polar's business as follows:

Their customers are primarily freight forwarders, a customer base that Atlas has never sold directly to - and

^{2/} AGI's website, www.air-global.com, clearly conveys the impression that it is a direct air carrier flying between the U.S. and Latin America. For example, its website "welcome" states that "[f]rom MIA, Air Global provides more dedicated B747 air cargo service to and from Argentina, Brazil, Colombia, Chile, Ecuador, Mexico, Paraguay, Trinidad, Peru, Venezuela and Uruguay than any other air cargo service provider in the world." However, to Evergreen's knowledge, AGI holds no authority from the Department to engage in foreign air transportation.

won't. Bringing Polar into the family has allowed Atlas to access the retail market, while ensuring it does not compete with our core ACMI customers.

Similarly, on AAWH's website, *www.atlasair.com*, it is proclaimed that "Atlas Air is the largest air cargo outsourcer and ACMI operator in the air-freight industry, serving over 80% of the market." Clearly, Atlas views itself, as it has from its beginnings, as an "airlines' airline" and not as a provider of airfreight services to the shipping public.

Atlas has further distanced itself from the scheduled cargo market through the establishment of its Atlas Air Partnership Program, which appears principally intended to benefit its airline customers. In promoting the program on its website, Atlas states as follows:

With Atlas Air, you are working with a partner you can trust, one whose only business is air cargo. Our interest is, and will remain, shipping freight on behalf of our airline customers--establishing your connection to the world.

http://www.atlasair.com/products/hub.asp. In sum, the fact that Atlas, and not Polar, applied for the Ecuador frequencies, along with Atlas' close involvement with AGI and Arrow, casts doubt on Atlas' real interest in providing scheduled service to a full range of U.S. and Ecuadorian shippers.

CUSTOM AIR TRANSPORT

Custom Air Transport seeks three weekly frequencies for a service proposal that suffers from serious flaws. Significantly, it proposes to operate with B-727-200 cargo aircraft having only about one-third the cargo capacity of Evergreen's B-747-200 aircraft. In an attempt to shore up this decidedly inferior aircraft proposal, Custom Air asserts its

intention to acquire several DC-10 aircraft to begin operations in December 2002, but the record reflects no definitive commitment to acquire the aircraft or a description as to how those aircraft will be financed, information the Department sought in its June 14, 2002 Notice (at page 4 n.3).

Custom Air appears to have no experience or authority to conduct scheduled, all-cargo service in other foreign markets. The carrier offers no statement concerning past scheduled service in its application, and its Form 41 financial statements for the years 1998-2001 show no revenue from scheduled service. The true nature of Custom Air's service history seems to be reflected at page 4 of its Comments filed on November 13, 2001 in Docket OST-01-10885, Procedures for Compensation of Air Carriers:

CAT operates a near-constant stream of business for Charter America under contracts with Emery and DHL, and occasionally BAX Global. The expectation of this business is the basis on which it calculates the number of aircraft it must operate and the number of crews and support personnel needed; it turns away other business to maintain its availability for these operations [footnote omitted].

This commitment to "contract" service raises additional questions as to the availability of Custom Air aircraft to operate U.S.-Ecuador scheduled service and as to the carrier's staying power in a market where experienced all-cargo airlines offer competing, scheduled services.^{3/}

^{3/} In such a market, it is not enough for Custom Air to assert, without support, that it "will provide new service alternatives and lower prices" in the U.S.-Ecuador market. Absent evidence supporting Custom Air's specific ability and intent to offer lower prices than those available today, the Department should attach no weight to this assertion.

The Department would need to satisfy itself that Custom Air has the financial resources to mount and sustain a U.S.-Ecuador scheduled operation in the face of strong competition from incumbent and experienced, new entrant airlines. Custom Air asserts that information recently provided to the Department's Air Carrier Fitness Division in support of an increase in Custom Air's fleet should "adequately demonstrate establish CAT's fitness for scheduled foreign authority." Thus, it appears that Custom Air recognizes that the grant of U.S.-Ecuador scheduled authority would require a positive fitness finding under 14 C.F.R. Part 204. However, to Evergreen's knowledge, the Department has not made not any such finding. Moreover, the company's Form 41 financial data as of December 31, 2001 does not paint the brightest financial picture; Schedule B-1.1, attached as Exhibit 4, shows total assets of \$1,770,152 against total current liabilities of \$5,266,919 and long-term debt of \$3,260,041.

Given the foregoing, Evergreen submits that awarding three frequencies to Custom Air would not further the international aviation policy objectives of the U.S., would not result in significant service benefits, and would not enhance competition in the restricted U.S.-Ecuador market.

FLORIDA WEST

Florida West has asked for an allocation of five weekly frequencies which it proposes to operate with B-767-300F aircraft. These aircraft have a capacity of only 120,000 pounds, about half that of Evergreen's B-747-200 aircraft. Further, although Florida West claims that it "has the experience required to promptly and successfully

inaugurate scheduled service," the carrier appears to have very little experience providing scheduled all-cargo service. There is no mention in its application of any markets where it currently is providing, or in the past has provided, scheduled all-cargo service.

Evergreen also questions whether it is appropriate under U.S. international aviation policy to award limited-entry frequencies in this market to an airline that reportedly has such a close affiliation with foreign carrier LanChile, S.A. LanChile already enjoys a substantial position in the U.S.-Ecuador market; Department traffic data indicates a market share of about 25% of the nonstop scheduled Miami-Ecuador traffic reported in 2001. *See* DOT-IR-1A. In addition to a 25% equity ownership in Florida West, press reports indicate that LanChile is the lessor of Florida West's two B-767-300F aircraft and plans to lease a third aircraft to Florida West in October 2002. *See* Exhibit 5. LanChile even includes Florida West Miami-Ecuador services in its "LanChile Cargo Freighter Service" timetables available at www.lancargo.com, further reinforcing the connection between these carriers. To be sure, LanChile is entitled under the U.S.-Chile Open Skies agreement to operate U.S.-Ecuador service, but Evergreen submits that it is not appropriate nor is it consistent with the public interest for the Department to allocate limited U.S.-flag frequencies to Florida West if the ultimate result is for LanChile to improve its competitive position in the market.

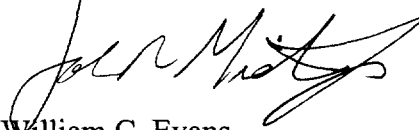
CONCLUSION

The doubling of U.S. carrier frequencies available for scheduled, all-cargo, U.S.-Ecuador service represents a significant opportunity to enhance competition between

U.S.-flag and foreign-flag carriers and between U.S. gateways. Evergreen's proposed New York-Miami-Ecuador service clearly meets these goals, and for the reasons set forth above the Department should allocate new frequencies to the other applicants only if Evergreen's request for two weekly frequencies is granted in full.

WHEREFORE, Evergreen International Airlines, Inc. respectfully requests that the Department grant its application in its entirety and such other and different relief as the Department may deem in the public interest.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "John R. Mietus, Jr.", written in a cursive style.

William C. Evans

John R. Mietus, Jr.

VERNER, LIIPFERT, BERNHARD,
McPHERSON and HAND, Chartered

901 15th Street, NW, Suite 700

Washington, DC 20005

Counsel for Evergreen International Airlines, Inc.

August 2, 2002

CERTIFICATE OF SERVICE

I hereby certify that I have this 2nd day of August, 2002 served a copy of the foregoing Supplement to Application upon the following by facsimile:

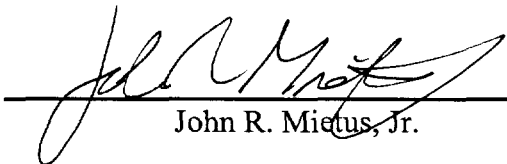
Lawrence Wasko, counsel for Arrow Air

Russell Pommer, Atlas Air Cargo

Mark Atwood, counsel for Custom Air Transport

Marshall Sinick, counsel for Florida West

Moffett Roller, counsel for Gemini Air Cargo



John R. Matus, Jr.

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Ancillary Charges TableRate Table**Flight Schedule ex Miami to Latin America and the Caribbean**

COUNTRY	CITY	FLT. #	FREQUENCY	DEPARTURE (ETD)
Colombia	Bogota (BOG)	431	Mon Tue Wed Thu Fri Sat	1800
Costa Rica	San Jose (SJO)	615	Mon Tue Wed Thu Fri Sat	2000
Dom. Republic	Sto. Domingo (SDQ)	111	Tue Thu Sun	0500
	Puerto Plata (POP)	113	Sun	0500
Ecuador	Guayaquil (GYE)	627	Tue Thu Sun	0800
	Quito (UIO)	363	MonTueWedThuFriSatSun	0300 / Sun 0800
El Salvador	San Salvador (SAL)	557	MonTueWedThuFriSatSun	2000
Guatemala	Guatemala City (GUA)	573	Mon Tue Wed Thu Fri Sat	2200
Honduras	San Pedro Sula (SAP)	541	Tue Thu Sat	2000
	Tegucigalpa (TGU)		Tue Thu Sat	2000
Nicaragua	Managua (MGA)	535	Mon Tue Wed Thu Fri Sat	2000
Panama	Panama City (PTY)	517	Mon Tue Wed Thu Fri	2000
Peru	Lima (LIM)	619	Mon Wed Fri	0500
	Iquitos (IQT)	619	Wed	0500
Puerto Rico and Virgin Islands	San Juan (SJU)	601	TueWedThuFriSat	0100
	St. Thomas (STT)*	2102	MonTueWedThuFri	Twice Daily
	St. Croix (STX)*	1103	MonTueWedThuFri	Once Daily
		1106	Wed	Once a Week
	Tortola			

Exhibit 1
Page 2 of 2

	(EIS)*			
Trinidad	Port of Spain (POS)	617	Tue Fri	0400
Venezuela	Caracas (CCS)	447	Mon Tue Wed Thu Fri Sat	0300
	Maracaibo (MAR)	445	Mon Wed Fri	0600
	Valencia (VLN)	441	Wed Sat	2300

Notes:

1) Inland Venezuelan Points: Barcelona (BLA), Las Piedras (LSP), Barquisimeto (BQM), Porlamar (PLM), Maturin (MUN) & Puerto Ordaz (PZO) served via CCS/daily RFS movement.

2) * Connecting with Four Star Aviation in Puerto Rico.

Collect Shipments: Accepted to all destinations *except* for Honduras & Virgin Island points. Collect accepted to Ecuador & Venezuela if paid in USD\$.

Dated Printed Matter: **PREPAID** only.

Cargo Sales

Mandatory: Agents to submit CSR's *every* 15 days to:
ARROW AIR, INC. P.O. Box 523726 Miami, FL 33152

Reports:Cut-off:

Cargo & documents for flights must be tendered 5 hours prior to ETD.

Security Fee:

Please include \$0.10 / K (\$10.00 min) based on chargeable weight in the due carrier box.

Fule Surcharge:

Please include \$0.10 / K (\$5.00 min) based on chargeable weight in the due carrier box.

ARROW AIR, INC. SERVICES, CORP.

P.O. Box 523726

Miami, FL 33152

Tel: (305) 871-3116 Sales/Administration

Fax: (305) 871-7357 Sales

Effective: April 15,
2002

Tel: (305) 871-3370 Reservations / Fax: (305) 871-7257

FOR IMMEDIATE RELEASE

**AIR GLOBAL INTERNATIONAL
AND ARROW AIR
DEVELOPING COMMERCIAL AND
LOGISTICAL ALLIANCE**

Tuesday, May 28, 2002

Air Global International (AGI) and Arrow Air are developing a strategic alliance to collectively provide the air cargo industry with the most comprehensive and effective product delivery in the Americas. Encompassing Mexico, the Caribbean, Central America and South America, the alliance will provide efficient, client driven service levels to the freight forwarding community.

Commercial aspects of the plan provide for AGI to incorporate their existing B747 all cargo capacity and Arrow Air to incorporate their all cargo fleet of DC8 aircraft, prospectively the DC10 fleet of a sub-service carrier and future fleet expansions of Arrow.

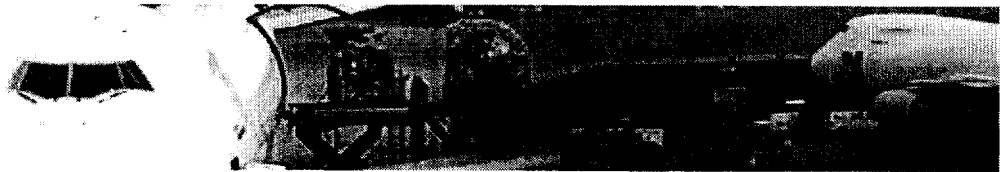
The Operational aspects of the plan provide for consolidated warehouse operations in Miami and throughout South America as well as efficiencies created through jet fuel purchases, aircraft handling agreements and route planning.

Arrow Air is the industry's largest DC8 operator and provides more capacity to Central America than any other cargo carrier. Currently operating DC8 and DC10 aircraft to Puerto Rico, Trinidad, Costa Rica, Panama, Nicaragua, Guatemala, El Salvador, Honduras, Venezuela, Colombia, Ecuador and Peru, Arrow Air intends to be the dominant carrier to Central America and the Caribbean under the new management team headed by Richard Haberly, Arrow Air's President and CEO.

Air Global International operates 15 weekly flights, utilizing contracted Atlas Air B747 freighters to Brazil, Colombia, Chile, Ecuador, Paraguay and Mexico from Miami International Airport. AGI will soon launch twice weekly service from Los Angeles (LAX) to Mexico, Brazil and Chile. AGI ranks among the top three air cargo service providers from Miami International Airport to Latin America. AGI launched service in September, 2001 with the mission of creating a New Standard of Service and has rapidly become Miami's dominant, long range air cargo service provider.

Further to the strategic alliance with AGI in the Americas Region, Arrow Air is in discussions with Atlas Air to join their HUB Partnership Program; a program in which AGI is actively involved.

For further information on Arrow Air, Please call 305-871-6606.
For further information on Air Global International, please call 305-871-7102.

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News

FOR IMMEDIATE RELEASE

AGI Contact: Mike Visconti
TEL: 305-871-7102ARROW AIR Contact: John Long
TEL: 305-871-6606

May 28, 2002

AIR GLOBAL INTERNATIONAL AND ARROW AIR DEVELOPING COMMERCIAL AND LOGISTICAL ALLIANCE

Air Global International (AGI) and Arrow Air are developing a strategic alliance to collectively provide the air cargo industry with the most comprehensive and effective product delivery in the Americas. Encompassing Mexico, the Caribbean, Central America and South America, the alliance will provide efficient, client driven service levels to the freight forwarding community.

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By Mike Seemuth

Friday, May 31, 2002 06:41

MIAMI, May 31 (WorldACD) - The newly-announced alliance between cargo airline Arrow Air, an operator of DC-8 freighters, and Air Global International, an indirect carrier that wet-leases Boeing 747-200 freighters targets markets which do not to be served by 747Fs.

"This gives us the expansion capability into markets that don't require a 747," Frank Visconti, president and chief executive officer of Air Global, told WorldACD in an interview on Thursday.

Arrow Air, in turn, will complement its narrow-body, DC-8 capacity with wide-body, 747-200 capacity "without investing in additional aircraft," Visconti said.

Aircraft sharing by the two companies will begin "soon," Visconti added though no firm start-up date has been set.

In planning the customer-service details of their alliance, "we're being very, very careful," he said. "The first sampling of the product will tell the market a lot about our ability to deliver."

Arrow Air and Air Global, both based in Miami, have extensive cargo operations in Latin American markets.

Asked which markets would be the first to see shared-aircraft operations by the two companies, Visconti said, "They're all being looked at."

Ultimately their alliance will be "encompassing Mexico, the Caribbean, Central America and South America," according to a company announcement posted this week on the Web site of Arrow Air.

"The operational aspects of the [alliance] plan provide for consolidated warehouse operations in Miami ... as well as efficiencies created through jet fuel purchases, aircraft handling agreements and route planning," the Arrow announcement said.

Richard Haberly, who recently was appointed president and chief executive officer of Arrow Air, could not be reached for comment late Thursday.

Air Global has handled a mix imports and exports at two warehouses on the grounds of Miami International Airport, as has Arrow Air at one warehouse there.

As part of their alliance, the two companies jointly will handle exports only at the two warehouses leased

by Air Global, which have a total of 86,000 square feet, Visconti said, and both will process imports only inside 60,000 square feet of refrigerated warehouse space leased by Arrow.

In South America, Arrow and Air Global each have warehouses in Bogota, Colombia, and in two cities in Ecuador, Quito and Guayaquil, and some of these facilities may be consolidated, too, Visconti said.

"Those reviews will begin in the next few weeks."

Air Global commenced operations in September 2001 with a five-year contract to use Boeing 747 freighter operator Atlas Air as its exclusive source of wide-body lift.

Atlas currently operates 15 flights per week for Air Global from the Miami airport to Brazil, Colombia, Chile, Ecuador, Paraguay and Mexico.

Arrow Air, with a company history dating back to 1950, currently has a total of 135 freighter departures per week to and from 12 nations in the Caribbean, Central America and South America. They are: Puerto Rico, Trinidad, Costa Rica, Panama, Nicaragua, Guatemala, El Salvador, Honduras, Venezuela, Colombia, Ecuador and Peru.

Arrow has a narrow-body freighter fleet of 10 DC-8 aircraft and a fleet of four wide-body freighters comprised of a mix of DC-10 and L-1011 aircraft, according to its Web site.

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June 17, 2002, Monday

SECTION: AIR COMMERCE; Pg. 34

LENGTH: 806 words

HEADLINE: Latin leap;

Alliance of Atlas, Air Global will provide efficiencies but is unlikely to raise rates

BYLINE: BY IAN PUTZGER

BODY:

Two of the largest freighter airlines operating between the U.S. and Latin America are creating an alliance covering flights and ground handling. The deal involves Air Global International, which concentrates on South America, and Arrow Air, whose focus is on Central America and the Caribbean. Arrow, which emerged from Chapter 11 bankruptcy protection last month, operates DC-10 and DC-8 freighters to 12 markets in Central America. Air Global, created last September, uses three B-747 freighters leased from Atlas Air to fly to Brazil, Chile, Colombia, Ecuador, Paraguay and Mexico.

The alliance establishes a network that covers the Latin American and Caribbean markets at relatively low costs to the Miami-based partners. In a soft market where profits remain under pressure, both sides say keeping costs down is a major motivator for their alignment. Besides opening markets to each other and creating flexibility in aircraft deployment, their partnership envisions cooperation on warehouse operations, fuel purchases, handling agreements and route planning.

Joint warehousing will be one of the first initiatives. Frank Visconti, president of AGI, said joint warehousing in Miami should begin by the end of July, with similar moves to follow in the Latin American markets served by both airlines.

The carriers' ultimate goal is to share the combined network, but space-sharing will be tackled market by market, starting within the next 60 days, Visconti said. The first targets are the routes from Miami to Ecuador and Colombia -- markets served by both carriers. It's uncertain whether the formula for space-sharing will vary by route, Visconti said.

Ron Young, vice president for Latin America and the Caribbean at Emery Forwarding, welcomed the expansion of AGI's network. "We've been using AGI. If they offer more destinations, more capacity, that would be attractive for us," he said.

That line of thinking presupposes that the two carriers will have similar service and performance standards.

AGI was founded on the premise that most freighter operators serving Latin America were providing poor service by keeping planes on the ground until they had enough cargo. AGI pledged to maintain flight schedules and provide reliable data about cargo status.

John Long, senior vice president of Arrow, stressed that the management that took Arrow out of Chapter 11 views the airline as a service organization and must keep customer service as its primary goal. The new Arrow combines the resources of the old Fine Air, which no longer exists, and the old Arrow, which Fine acquired several years ago.

For Young, Arrow's emphasis on customer service is critical. The forwarder needs reliable airline service to sell its time-definite services, ranging from overnight guaranteed to more economical, less time-sensitive services. Freighters operators that tend to wait for full loads before they take off usually are cheaper but risky because of the possibility of lengthy delays, he said.

A more reliable freighter operation could compete with belly capacity of passenger airlines. Chris Powers, American Airlines' managing director of cargo for Florida, the Caribbean and Latin America, noted, however, that American has daily flights while some freighters operate weekly. American introduced flight-specific premium service on international routes on May 1.

Young said Emery tends to put more premium freight on passenger flights, but that passenger carriers face height and weight restrictions. He said forwarders sometimes have no choice but to use main-deck capacity.

"It's often the industry sectors that dictate the types of carriers that you use," he explained. Automotive or telecommunications consignments tend to be bigger, requiring freighters, while consumer items usually can be loaded into bellies of passenger planes.

Arrow and AGI hope to expand their networks into one that encompasses the region. They also say using different aircraft types will enable them to match planes with markets. Marta Arner, export manager of Miami International Forwarders, said that makes sense for agents and shippers, too. "Sometimes we have big freight to Central America, where we could use a 747, but nobody has big planes to that area. Most have DC-8s or DC-10s," she said.

Visconti said the partners are studying other forms of cooperation, such as in information technology. He said there are no plans for a merger, but he would not rule one out later.

Even without a formal merger the pair are a formidable force in the market. But they're unlikely to be able to raise prices sharply. Their routes have little overlap, and on the ones they both serve -- Colombia and Ecuador -- there is ample competition. "I don't think it will have an impact on rates if they share capacity," Arner said.

Atlas Air Worldwide Holdings Completes Acquisition Of Polar Air Cargo

Purchase, NY - November 2, 2001 -- Atlas Air Worldwide Holdings (NYSE: CGO) announced today that it has acquired Polar Air Cargo from GE Capital Aviation Services (GECAS), a GE Capital company. Under the terms of the agreement announced in July, the stated purchase price of \$84 million was effectively reduced by \$30 million through certain financing commitments as well as the restructuring of associated aircraft leases. In addition, approximately half of the purchase price has now been financed through a two-year term loan. The transaction was completed following receipt of exemption authority for such purchase from the U.S. Department of Transportation.

Atlas Air Worldwide Holdings (AAWH) said that it expects to continue the full utilization of Polar's current operating fleet of seventeen B747 freighters through the remainder of this year's peak season period. Thereafter, AAWH intends to resize Polar's fleet, focusing on its fleet of four B747-400 aircraft and a yet to be determined number of B747-200 aircraft, operating in scheduled service. Up to eight B747-100 aircraft currently in Polar's fleet will be permanently parked.

Polar was recently awarded valuable fifth freedom rights between Hong Kong and Seoul, South Korea, for which a schedule will be announced shortly. In addition, Polar Air Cargo holds route authority and sixteen weekly slots at Tokyo's Narita airport. Tokyo is the world's fourth largest freight market, and operating rights there are highly sought after and severely restricted in number.

"Polar's valuable Japanese route authorities and its fleet of B747-400 freighter aircraft will complement Atlas Air's capabilities and offer new opportunities to customers of both companies," said Richard Shuyler, Chief Executive Officer for both Atlas Air Worldwide Holdings, Inc. and Atlas Air, Inc. "Our current plan is to keep the Atlas Air and Polar brands separate, but we also expect to achieve significant synergies between the two companies. In addition, certain changes to the terms of the transaction were made to better reflect the current economic environment and help ensure ample liquidity."

Shuyler added, "We believe the additional liquidity afforded by the revised terms, as well as the addition of the fifth freedom rights between Hong Kong and Seoul, will make this an even more attractive acquisition for AAWH going forward. We welcome the fine employees of Polar to the Atlas family and look forward to a long and profitable relationship."

Polar Air Cargo specializes in time-definite, cost-effective airport-to-airport scheduled airfreight service. Its fleet of Boeing 747 freighter aircraft provides scheduled service to all of the world's major economic regions.

Atlas Air Worldwide Holdings, Inc. is the parent company of Atlas Air, Inc., a United States certificated air carrier that operates a fleet of 37 B747 freighters, specializing in ACMI contracts. These contracts include the provision of Aircraft, Crew, Maintenance and Insurance for some of the world's leading international carriers. Polar and Atlas Air will be operated as separate subsidiaries of the parent company. Polar will

maintain its operations from its Long Beach, CA headquarters for the immediate future.

To the extent that any of the statements contained herein relating to the Company's expectations, assumptions and other Company matters are forward-looking, they are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements are based on current expectations that involve a number of uncertainties and risks that could cause actual results to differ materially from those projected in the forward-looking statements, including, but not limited to, risks associated with: worldwide business and economic conditions; product demand and the rate of growth in the air cargo industry; the impact of competitors and competitive aircraft and aircraft financing availability; the ability to attract and retain new and existing customers; normalized aircraft operating costs and reliability; management of growth; the continue productivity of its workforce; dependence on key personnel; and regulatory matters. For additional information regarding these and other risk factors, reference is made to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 and the Quarterly Report on Form 10-Q for the period ended June 31, 2001.

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ANNUAL MEETING
JUNE 4, 2002
RICHARD SHUYLER, CEO

Thank you for coming today.

2001 was obviously an eventful year for Atlas Air Worldwide Holdings. With all we've seen over the past year, Atlas Air has faced a unique set of challenges, few if any of which could have been predicted as little as 12 months ago.

Looking back, if someone had told me that during the year, we would lose our beloved founder, Michael Chowdry; that the U.S., and indeed most of the developed world, would sink into a deep economic recession; that terrorists would attack America, using passenger-filled airplanes as weapons; and that the U.S. would be at war in Afghanistan – frankly, I am sure I would not have believed it.

To be blunt, 2001 was the worst year Atlas has ever faced, and perhaps the worst year that aviation has ever faced. As difficult as 2001 was, however, I do believe that we successfully responded to the challenges we experienced by making changes that will ensure that Atlas emerges as an even stronger over the long run.

We truly live in an interconnected world, one in which products routinely are traded across vast distances, products that are an essential part of our every-day lives. And the cargo industry provides the all-important transportation link in that global supply chain. As Michael once said, "Until the day comes when, like in Star Trek, you can say 'Beam Me Up, Scotty', we will need to have someone physically transport all those goods from one location to another."

The world's economies simply cannot function as they do today without cargo. The recession notwithstanding, Atlas is a crucial part of the world's supply chain. From its humble beginnings 10 years ago flying a single 747, Atlas Air Worldwide Holdings now operates 51 of the 226 Boeing 747 freighter aircraft in use in the world today -- including the newest generation 747-400 freighters -- far and away the world's biggest single fleet of such aircraft, and nearly one-fourth of all global 747 freighter capacity.

And the need for cargo continues to grow. In fact, growth in the air cargo market has consistently outpaced that of the passenger industry, and the economic forces driving expansion in our part of the aviation business are somewhat different from those driving growth – or perhaps the lack thereof – among the passenger carriers. Global economic growth, the relaxation of international trade barriers, and the movement of manufacturing to lower labor-cost economies in Asia, South America, and other parts of the world are all promoting growth in the air cargo industry. Historically, growth in air cargo has been substantial. In 2000, the rise in international air freight was 7.2 percent. Over the five year period ending in 2000, the growth rate was 6.7 percent. But that came to a screeching halt in 2001. Indeed, 2001 was the worst year on record in air cargo, with a year-over-year decline of 9.7 percent.

So what changed? First of all, while the air cargo industry has weathered numerous localized recessions, this recession is truly global in nature, the first of its kind in 10 years. Secondly, we suffered from considerable excess capacity, among both passenger and cargo carriers, capacity that had been acquired during the boom years when all arrows seemed to point up. And capacity that then began being delivered just as the arrows swung south. We also saw a trend toward regional protectionism, particularly in Europe with the European Union, which put constraints on the use of outsourced aircraft. Finally, the terrible events of September 11 left no U.S. carrier untouched, and the effects of the terrorist attacks are still being felt to this day.

Unfortunately, we are not out of the woods yet. Industry analysts expect the current slowdown in airfreight to continue through at least the first half of 2002, with full-year 2002 traffic ending up back at 1999 levels, probably at best. While traffic is improving, flights from the US are still weak, due in part not only to the soft economy, but also to the relative strength of the US dollar compared to the world's other major currencies. The good news for Atlas is that cargo is expected to show signs of recovery before the passenger airlines. The remaining question, of course, is "when?"

That question notwithstanding, over the long term, growth forecasts remain solid. Projections made since 9/11 by MergeGlobal, the industry's leading consultants regarding transportation economics, still look for 3.8 percent annual growth rate in air cargo over the next ten years, with the greatest increases in intercontinental freight, particularly between Europe and Asia. The Boeing Company also predicts post 9/11 that growth of air cargo will outpace that expected among passenger airlines, and will do so in every major geographical area of the world.

Exhibit 3
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As a result, over the long run, owners of capacity will be rewarded by the marketplace. That's because over the past eighteen months, there have been significant capacity shifts in the marketplace. Since 9/11, 10-15 percent of passenger capacity worldwide has disappeared, as passenger aircraft have been parked, sometimes permanently, due to decreased demand for air travel. Parked aircraft are expected to exceed 2,000 by the end of this year, with significant implications for those of us operating dedicated freighter aircraft. Grounded aircraft means less belly space on passenger flights, and about 65 percent of the world's air cargo is carried in the bellies of passenger aircraft. In addition, as we all know, the passenger airlines are instituting costly upgrades and new safety procedures that, while making air travel safer for millions of passengers around the world, have added considerable barriers and expenses to those carriers' ability to move the world's freight, as well as reducing their associated business opportunities. Finally, there are far fewer new aircraft coming off the production lines this year. Hundreds of cancellations and aircraft deferrals will affect aircraft production through at least 2004. New commercial aircraft deliveries are projected to be down some 60 percent from 2001.

In anticipation of the return to growth, it became clear to us that Atlas needed to make some significant changes in order to better position ourselves from a marketplace perspective. Let me take a minute to review where Atlas Air's business model stood at the end of 2000. Since our inception, we have provided airport-to-airport transportation of cargo, using an all-747 fleet. Our only customers were airlines. We served one customer per aircraft, primarily on long-term contracts, selling only on an ACMI – Aircraft, Crew, Maintenance, and Insurance – basis. We sold a single product – 747 dedicated capacity – and a single product line – long-term ACMI contracts. This was a brilliant business model that served us very well for a long time. But essentially, it was a 'one size fits all' product.

The changes in the marketplace have meant that a 'one size fits all' product no longer meets the needs of each of Atlas' customers, let alone other potential buyers for our services. To that end, we have made a number of important changes to our business model.

Some time ago, we recognized that Atlas was going to have to diversify its product offerings if we were going to be able to keep growing over the long term. And last year, we began to bring that idea to fruition. We introduced new products, including "less-than-plane-load" services; we began to offer short-term as well as long-term and seasonal contracts; we began selling "unbundled" ACMI services, products that are derivatives of our original ACMI product, that we call "fractional ACMI" and "partial ACMI"; and we created other logistics offerings, including the launch of the industry's only neutral scheduled air cargo distribution network. We purchased Polar Air Cargo, right-sized their fleet, and brought them into the global network we built, gaining access both to the retail market and to the valuable Japanese cargo market by doing so. In short, Atlas began moving from a 'one-size-fits-all' philosophy to a 'one-stop-shopping' marketing concept.

We took other steps over the course of the year to adjust our business to the events of 2001. In the spring, we took the difficult step of reducing our ground staff by nearly one-third, and we furloughed over 100 crewmembers. In addition, we cut all discretionary capital spending. During the fourth quarter of the year, both Polar and Atlas Air sought to provide a significant amount of supplementary lift for the United States military, generating additional charter revenues for us.

The most significant step we took was the acquisition of Polar Air Cargo – one of the high points of 2001 for all of us. I am happy to say that Polar has been profitable from the day we took ownership, and we think Polar has a very bright future. Polar's business is different, yet complementary, to Atlas Air's. Polar offers primarily scheduled air cargo service; their customers are freight forwarders and shippers. They also offer some non-scheduled services and charters, and a very limited number of ACMI services that were contracted before we purchased Polar. Like Atlas, they are a United States flag carrier with worldwide operating authority, and they operate an all-B747 fleet. At present, Polar is operating 5 B747-200's, 4 B747-400's, 2 B747-100's and one B747-300 that they have dry-leased from Atlas Air, with two more to come from Atlas, plus a fifth new 747-400 delivery from Boeing. Their customers are primarily freight forwarders, a customer base that Atlas Air has never sold directly to – and won't. Bringing Polar into the family has allowed Atlas to access the retail market, while ensuring it does not compete with our core ACMI customers.

In short, during 2001, we laid the groundwork to be ready for the economic rebound that we are convinced is coming, hopefully sooner rather than later. We now have the infrastructure in place to reach a broader customer base, and to offer more value to those customers we already have. The Atlas Air Partnership Program, launched in the fall of 2001, was developed in response to changes in the marketplace – not changing economic conditions. We recognized long ago that the air cargo market would inevitably continue to change, and that Atlas needed to be ready. The Partnership Program is a long-term, strategic initiative designed to allow us to meet customer needs

Exhibit 3
Page 5 of 5

through the development of a neutral global network of allied partners. Last year, we opened hubs in Liege, Belgium, and Miami, Florida. Complementing the access offered by the Partnership Program, Atlas is also offering a much broader range of products and services. Most are variations on our existing ACMI service that are designed to provide more flexibility for our customers. And we are capable of providing flexible capacity for carriers who need it during their peak seasons.

Finally, despite the challenging economic environment we face, our liquidity remains strong. We acted quickly to reduce costs, and ended 2001 with \$350 million in cash, fully 45 percent of our annual revenues. At the end of the first quarter of 2002, we had \$266 million in cash, with over 40 percent of our cash ownership payments for the year already made during the first quarter. We are confident of the solid financial underpinnings of our company.

Looking ahead to the rest of 2002, we have yet another challenge in front of us. We have been in negotiations for over two years now with our flight crew employees for what will be our first labor agreement, and are now in what's called a 30-day "cooling-off" period. Our priority from the beginning has been to reach an agreement that will be sustainable for the Company over the entire term of the contract, as well as one that fairly compensates our crewmembers for their work. However, what we are not going to do is enter into an agreement that we can't afford. The airline industry has all too many examples of companies that have made that mistake and whose financial viability is now threatened as a result. We are not going to make that mistake. That having been said, we are confident we will eventually reach a deal with our crewmembers.

Once we have a labor agreement, we plan to continue expanding the Partnership Program, including new hubs – we are considering locations like Anchorage, Dubai, and several points in Asia as possible next steps. We will continue to seek new strategic partnerships to strengthen the Program. We are working towards a fuller coordination of Atlas and Polar marketing functions. Above all, our goal is to return Atlas Air Worldwide Holdings to profitability. We believe that we can realize still more savings and revenue opportunities at Polar and - when demand increases -- profitably re-deploy the aircraft in Atlas Air's fleet that are currently parked.

We continue to believe in the long-term prospects for air cargo growth. And, we believe that Atlas Air Worldwide Holdings is ready to weather what remains of this economic downturn, and is well-positioned for the rebound that surely must follow.

I thank all of you – employees and shareholders alike – for your support.

Exhibit 4
Page 1 of 1

BALANCE SHEET

As At: December 31, 2001
Schedule B-1.1 for Group I < 20M

Air Carrier: Custom Air Transport
Operation : Domestic CTQD

LINE#	DESCRIPTION	AMOUNT
ASSETS		
CURRENT ASSETS		
Line 1	Cash and cash equivalents	10,000
Line 2	Notes and accts receivable (net)	1,120,974
Line 3	Other current assets	0
Line 4	Total current assets	1,130,974
PROPERTY AND EQUIPMENT		
Line 5	Owned property and equipment	931,918
Line 6	Less: accumulated depreciation	763,480
Line 7	Prop. & equip. under cap. leases	0
Line 8	Less: accumulated amortization	0
Line 9	Total property & equipment	168,438
Line 10	OTHER ASSETS	470,740
Line 11	TOTAL ASSETS	1,770,152
LIABILITIES & STOCKHOLDERS' EQ.		
CURRENT LIABILITIES		
Line 12	Notes and accounts payable	5,229,878
Line 13	Accrued taxes	0
Line 14	Other current liabilities	37,041
Line 15	Total current liabilities	5,266,919
Line 16	LONG-TERM DEBT	3,260,041
Line 17	OTHER LIABILITIES	0
Line 18	DEFERRED CREDITS	0
STOCKHOLDERS' EQUITY:		
Line 19	Preferred shares outstanding	0
Line 20	Common shares outstanding	10,100
Line 21	Other paid in capital	2,338,124
Line 22	Retained Earnings	-9,105,032
Line 23	Total stockholders' equity	-6,756,808
Line 24	Less: Treasury stock	0
Line 25	Net stockholders' equity	-6,756,808
Line 26	TOTAL LIAB. & STOCKHOLDERS' EQ.	1,770,152
Line 19A	No. of Preferred shares outstanding	0
Line 20A	No. of Common shares outstanding	0

I, the undersigned, (Title) _____
of the above-named air carrier certify that the above report and
the attached Financial Schedules, Statement of Operations, and
Traffic and Capacity Statistics, including the T-100 report and
Passenger Origin-Destination Survey, have been examined by me and
to the best of my knowledge and belief are true, correct and
complete reports for the period stated.

Signature: _____ Date: _____

Name (Please Type or Print) _____

Archive: Article[return to list](#) | ◀ article 1 of 1 ▶**LanChile wet-leases second freighter from Gemini Air Cargo**

Chris Kjelgaard, Washington DC (03Jan02, 23:24 GMT, 376 words)

LanChile has wet-leased a second widebody freighter from Gemini Air Cargo to replace capacity formerly provided by Atlas Air.

Gemini's director of customer service Bob Wilson says the carrier began flying a Boeing MD-11 and McDonnell Douglas DC-10 for **LanChile** last fall. **LanChile** revealed in October it had wet-leased the MD-11 to replace an Atlas 747-200F and has since added a Gemini DC-10 to replace its last Atlas 747-200, which it returned in the fourth quarter.

Wilson says the MD-11 and DC-10 are still on full-time wet lease to **LanChile** but the contract is open-ended, meaning either party can terminate with minimal advance notice.

LanChile terminated wet-lease contracts with Atlas for three Boeing 747s last year. Atlas continues to fly the aircraft on similar routes linking Miami and South America, but for new-start Air Global International.

Gemini in the past has wet-leased aircraft to Florida West International Airways, which is in part owned by **LanChile**. Florida West now operates two Boeing 767-300F freighters subleased from **LanChile** and its chief executive, Richard Haberly, says the Miami-based carrier will take a third 767 from **LanChile** in October.

In addition to the Gemini and Florida West aircraft, **LanChile** sells cargo space on flights operated by its own fleet of six Boeing 767-300Fs. **LanChile's** recently spun-off cargo division also sells the belly space available on its passenger flights and purchases and resells belly space from other carriers.

Wilson says the addition of **LanChile** gives Gemini four to six freighters based in Miami, depending on the season. Gemini now also wet-leases a MD-11 and a DC-10 to Servicios Transportes Aereos Fuguinios (STAF) and its Peruvian sister carrier, Cielos del Peru.

Gemini holds some of its own route authorities to South American but also flies using route authorities held by **LanChile**, STAF, Cielos del Peru and other customers. Gemini is also now working with the Ecuadorian government to give it the freedom to fly in its name to Quito and Guyaquil, authority it has already secured from the US government.

Transpacific flights now account for the bulk of Gemini's wet-lease business. The Virginia-based carrier reported to the DOT a \$6.6 million loss for the third quarter of 2001 on \$39.3 million in revenues, \$27.9 million of which it generated from Pacific customers.

Source: Air Transport Intelligence news

Contact the author

Related Stories

Gemini Air Cargo flightcrews join ALPA	(ATI News: 14Mar02, 20:17 GMT, 367 words)
Gemini Air Cargo crews consider joining ALPA	(ATI News: 11Mar02, 22:53 GMT, 191 words)
LanChile manages \$11m full-year profit despite 4Q net loss	(ATI News: 28Feb02, 20:50 GMT, 411 words)
LanChile subleases 767 freighter to Brazilian partner	(ATI News: 14Feb02, 16:10 GMT, 397 words)
Gemini Air Cargo parks two DC-10s & furloughs crew	(ATI News: 22Jan02, 18:06 GMT, 410 words)